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Report to the Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives

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U.S. - AFRICA TRADE

U.S. Textile and Apparel Importers' Reactions to Trade Preference Options

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National Security and
International Affairs Division

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July 17, 1998

The Honorable Philip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

At your request, we are providing information regarding the possible reactions of major U.S. textile and apparel importers to different approaches for granting trade preferences to sub-Saharan African countries. You asked us to report on (1) the expected reactions of major U.S. textile and apparel importers to alternative approaches to that taken in the African Growth and Opportunity Act (bill number H.R. 1432) and (2) the factors that would likely influence U.S. importers' decisions on whether to begin or increase importing textiles and apparel from sub-Saharan Africa. To obtain this information, we completed interviews with 65 out of the 80 largest U.S. importers of textile and apparel (in terms of dollar value of imports) in 1996. These companies accounted for almost one-third of total U.S. textile and apparel imports at that time. While the results of the company interviews are representative of the largest 80 U.S. textile and apparel importers, these results are not projectable or generalizable to the universe of all U.S. textile and apparel importers.

This report provides information on how major U.S. importers of textile and apparel might react to providing trade preferences to sub-Saharan Africa but does not address whether any of the discussed trade preference approaches would promote economic growth and development in the region. It also does not address the possible impact of increased sub-Saharan African textile and apparel imports on U.S. consumers and producers nor whether the potential increased trade with the region might represent diversion of trade from other countries or regions. Appendix IV discusses our scope and methodology in further detail.

Background

In March 1998, the House of Representatives passed the African Growth and Opportunity Act, which includes provisions that would offer preferential tariffs and other benefits to textile and apparel imports from sub-Saharan Africa to increase U.S. trade with that region. (See app. III for a listing of the 48 sub-Saharan African countries.) The bill would authorize the President to grant duty-free and quota-free treatment to

products—including textiles and apparel—from eligible sub-Saharan African countries under the Generalized System of Preferences (GSP).[1] This treatment would be provided for textile and apparel articles assembled in eligible sub-Saharan African countries without specifying where the yarn, fabric, or thread is made nor where the fabric is cut.[2]

In addition to the House bill, we asked about two alternative approaches for extending trade preferences to sub-Saharan African textile and apparel products. While all three approaches would provide duty-free, quota-free access for textile and apparel products assembled in sub-Saharan Africa, the two alternate approaches have more restrictive product eligibility requirements. The most restrictive approach would require that U.S.-formed fabric, thread, and yarns be used and that the fabric be cut in the United States. The less restrictive alternative approach would require the use of U.S.-formed fabric, thread, and yarn but permit cutting in sub-Saharan Africa. Unlike the House bill, both of the other approaches would require that companies ship U.S. fabric or cut pieces to sub-Saharan Africa for assembly into finished textile and apparel products.

Sub-Saharan Africa is currently a very small exporter of textiles and apparel to the United States, accounting for less than 1 percent of total U.S. general imports of these products in 1997.[3] Over 95 percent of sub-Saharan African textile and apparel exports to the United States originated from just 7 out of the 48 sub-Saharan African countries—Kenya, Lesotho, Madagascar, Mauritius, South Africa, Swaziland, and Zimbabwe.

Results in Brief

Our interviews with major U.S. importers of textile and apparel revealed that the companies' interest in initiating or increasing imports from sub-Saharan Africa varies widely, depending on the various trade liberalizing approaches. Only a limited number of the companies we interviewed, 7 out of the 65, reported that they might begin or increase importing these products from the region over the next 5 years if the most

[1]The GSP program provides duty-free access to the United States for some products of developing countries. The program eliminates tariffs on certain imports from eligible developing countries in order to promote development through trade rather than through traditional aid programs. See International Trade: Assessment of the Generalized System of Preferences Program (GAO/GGD-95-9, Nov. 9, 1994).

[2]Although all sub-Saharan African countries would potentially be eligible under the House bill, their individual eligibility would be contingent on the President's annual determination that the country (1) does not engage in gross violations of human rights and (2) has established, or is making progress toward establishing, a market-based economy.

[3]General imports measure the total physical arrivals of merchandise from foreign countries, whether such merchandise enters consumption channels immediately or is entered into bonded warehouses or foreign trade zones under the custody of the U.S. Customs Service.

restrictive product eligibility requirements for sub-Saharan African trade benefits are implemented. This approach would provide duty-free, quota-free treatment only to products assembled in sub-Saharan Africa from U.S.-made thread and fabric that must also be cut in the United States. Of the 65 companies, 15 reported that they might begin or increase importing from the region if eligibility were restricted to products made from U.S. fabric but not requiring that the fabric be cut in the United States. This contrasts with 54 out of the 65 companies that reported that they might begin or increase imports under the House bill, which would provide eligibility for products assembled in sub-Saharan Africa without specifying where the fabric is made or cut.[4] There were no major distinctions or systematic patterns distinguishing the types of companies that might import textiles and apparel from sub-Saharan Africa under any of the three approaches.

Most of the importers we interviewed indicated that increases in the time and costs of shipping associated with transporting U.S. fabric to sub-Saharan Africa were important factors that would discourage them from importing from the region under either of the more restrictive approaches. Conversely, the single most important factor influencing companies' interest in importing from sub-Saharan Africa under the House bill was the increased flexibility to choose the source of the fabric (that is, the lack of a requirement for U.S.-cut and -formed fabric).

Importer Interest Varies Substantially Under Different Product Eligibility Requirements

Far fewer of the companies we interviewed expressed an interest in beginning or increasing sub-Saharan textile and apparel imports under the more restrictive product eligibility approaches, in comparison to the House bill's less restrictive approach. Of the 65 importers interviewed for the study, only 7 reported that they might increase imports if eligibility were restricted to products assembled in sub-Saharan Africa from fabric cut and formed in the United States over the next 5 years.[5] Fifteen of the 65 companies reported that they might begin or increase importing sub-Saharan textile and apparel if eligibility were restricted to products made from U.S. fabric but not requiring that the fabric be cut in the United States.[6] This contrasts with 54 out of the 65 companies interviewed responding that they might increase imports over the next 5 years under

[4]Under each of the alternative approaches, three companies responded that they "didn't know" whether they would begin or increase imports.

[5]One of these companies reported that it was currently importing sub-Saharan textile or apparel products.

[6]Five of these companies reported that they were currently importing sub-Saharan textiles or apparel.

the House bill.[7] Almost three-fourths of these companies, or 39 out of 54, indicated that they might not begin or increase imports under either of the more restrictive alternative approaches. Also included in this latter group of 54 companies were all 22 firms we interviewed that currently import textiles and apparel from sub-Saharan Africa. (See app. II.) More than half of these companies, 12 out of 22, reported getting 1 percent or less of their total textile or apparel imports from sub-Saharan Africa. Of the remaining companies, eight reported importing on average about 5 percent of these products from the region, while two did not know how much they import.

The study included a wide range of companies that engaged in different importing activities. Of the 65 companies we interviewed, 43 reported that they import both textiles and apparel, 20 import apparel only, and 2 import textiles only. The interview respondents also included companies using diverse importing strategies.[8] While more than half of the companies interviewed, 36 out of 65, reported that they mainly import products that they source offshore under their own specifications, the study also included companies that mainly import finished products, companies that mainly import products from their own offshore manufacturing facilities, and companies that import equally under a combination of these strategies. Also, our study included 29 companies that mainly sell textiles and/or apparel, including major national discount department stores, retailers, and wholesalers, as well as 26 companies that mainly manufacture these products in the United States or offshore.[9]

The interview respondents also import textiles and apparel globally. All but one company reported importing from Asia, while the vast majority also reported importing from the Caribbean Basin[10] and Mexico. Furthermore, most of the companies use existing U.S. trade preference programs—such as the North American Free Trade Agreement (NAFTA)[11]

[7]Seven companies reported that they would not import from sub-Saharan Africa under any of the three alternative approaches.

[8]According to the Department of Commerce, U.S. importers of apparel generally (1) import finished products, (2) source or contract offshore production under exact specifications, and/or (3) engage in production sharing with contractors in other countries or own offshore production facilities.

[9]We relied on Dun & Bradstreet's Dun's Market Identifiers database to identify each company's business activity.

[10]Caribbean Basin countries include Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, the Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and the British Virgin Islands.

[11]NAFTA generally eliminates quotas and phases out tariffs on apparel originating in Mexico or Canada that is made from fabric produced in a NAFTA country.

and the Caribbean Basin Initiative (CBI)—to import textiles and apparel from these countries into the United States.

We analyzed the distribution of these characteristics for the different groups of companies that expressed an interest in importing sub-Saharan African textiles and apparel under each of the three approaches. Our analysis indicated that the various groups shared diverse characteristics and that there were no major distinctions or systematic patterns in the types of companies that might import textiles and apparel from sub-Saharan Africa. For example, we found that a company's participation in existing U.S trade preference programs was not an indicator of how it might react to extending preferences to sub-Saharan textiles and apparel. The proportion of companies that currently import these products under NAFTA trade regulations, Harmonized Tariff Schedule (HTS) 807A, or HTS 9802 (807)[12] that expressed an interest in importing from sub-Saharan Africa was similar under the various approaches we considered. Similarly, a company's experience with importing from sub-Saharan Africa also was not a major indicator of how it might react to trade preferences for sub-Saharan textiles and apparel. Companies indicating that they might begin or increase importing under the different approaches included both those that do and do not currently import from sub-Saharan Africa. See appendix I for additional information on company characteristics.

Shipping Time and Costs, and Sourcing Flexibility Are Key Factors in Company Import Decisions

Increased time and costs of shipping associated with transporting U.S. fabric to sub-Saharan Africa would discourage most of the importers we interviewed from importing textiles and apparel from the region under either of the more restrictive trade preference approaches. Increased shipping time was cited as an influential factor by three-quarters of the importers that indicated they might not import sub-Saharan textiles and apparel under the more restrictive approaches. Increased shipping costs were cited as an influential factor by more than half of this group of

[12]HTS 807A provides for virtually quota-free access to the U.S. market for CBI apparel assembled from U.S.-formed and -cut fabric. Under 807A, duties are only paid on the value added in the CBI countries. HTS 9802 refers to any products imported under the product-sharing provisions of item 807 of the U.S. Harmonized Tariff Schedule, which is now heading 9802 of the HTS. Although products imported under this provision are exempted from duties on the value of their U.S-made components, apparel imports are subject to quotas.

companies.[13] Furthermore, higher U.S. fabric costs were also cited as an influential factor by about one-third of the companies.

On the other hand, we found that increased flexibility to choose the fabrics' source was the single most important factor influencing companies' interest in importing. Increased sourcing flexibility was cited as an influential factor by 52 out of the 54 companies that said that they might import textiles and apparel from sub-Saharan Africa under the House bill. Furthermore, this was a major factor cited by 27 of the 39 importers that indicated that they might import sub-Saharan textiles and apparel under the House bill but might not under either of the more restrictive trade preference approaches.

Duty-free, quota-free benefits were also cited as influential factors in the decision to import textiles and apparel from sub-Saharan Africa by over two-thirds of the companies that might increase imports under the House bill and by most of the limited number of companies that might do so under the more restrictive alternatives that we asked about. However, the fact that 39 out of 54 companies that might import sub-Saharan textiles and apparel under the House bill might not do so under the more restrictive alternative approaches suggests that duty-free, quota-free benefits alone were generally not sufficient to substantially encourage increased textile and apparel imports from the region. Some companies stated that in light of the uncertainty related to doing business in sub-Saharan Africa, preferential tariffs would influence their decision-making if the companies were given the flexibility to buy fabric from anywhere in the world. See appendix II for additional information on factors influencing companies' decisions on whether to import from sub-Saharan Africa.

In addition to the business-related factors that could influence companies' interest in importing from sub-Saharan Africa, the provisions of other trade preference programs could be relevant. Given that many of the companies are already participating in preference programs such as NAFTA and CBI, their interest in importing from sub-Saharan Africa might be influenced by possible revisions to these programs. For example, although CBI granted Caribbean Basin countries preferential access to the U.S.

[13]The U.S. International Trade Commission (ITC) recently reported that shipping times and transportation costs between sub-Saharan Africa and the United States are already generally higher than other regions in the world, including Asia and the Caribbean Basin. See Likely Impact of Providing Quota-Free and Duty-Free Entry to Textiles and Apparel From Sub-Saharan Africa, U.S. ITC, Publication 3056, Energy, Chemicals and Textiles Division (Washington, DC.: Sept. 1997) and U.S.-Africa Trade Flows and Effects of the Uruguay Round Agreements and U.S. Trade and Development Policy, U.S. ITC, Publication 3067 (Washington, DC.: Oct. 1997).

apparel market in 1986, this region does not have parity with the greater trade preferences provided to Mexico in 1994 under NAFTA. If NAFTA-like treatment were granted to CBI textiles and apparel, about half of the 65 companies (32 to 34) we interviewed reported that their decision on whether to import from sub-Saharan Africa under the three approaches would not be affected. However, about one-third of the companies (20 to 24) indicated that they would be less likely to import from sub-Saharan Africa if NAFTA-like treatment were extended to CBI. This pattern generally held for the 7, 15, and 54 companies, respectively, that expressed an interest in importing from sub-Saharan Africa under the three approaches.

We are sending copies of this report to appropriate congressional committees and other interested parties—including companies that participated in the study. We will also make copies available to others upon request.

Please contact me at (202) 512-8984 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix V.

Sincerely yours,

JayEtta Z. Hecker, Associate Director
International Relations and Trade Issues

Contents

Abbreviations

CBI	Caribbean Basin Initiative
GSP	Generalized System of Preferences
HTS	Harmonized Tariff Schedule
ITC	U.S. International Trade Commission
NAFTA	North American Free Trade Agreement

Characteristics of Responding Companies by Their Reactions to Alternative Trade Preference Approaches

Characteristics	All companies	Yes, if required to use U.S.-formed and -cut fabric	Yes, if required to use U.S.- formed (not cut) fabric	Yes, if no restrictions on fabric or cutting	No, under any of the three approaches
Number of responding companies[a]	65	7	15	54	7
Type of imports					
Apparel	20	2	5	15	3
Textiles	2	1	1	1	0
Apparel and textiles	43	4	9	38	4
Type of business					
Seller	29	5	6	28	1
Manufacturer	26	1	4	20	2
Both seller and manufacturer	7	0	3	4	3
Other	3	1	2	2	1
Main import activity[b]					
Source offshore	36	4	7	28	6
Import finished products	14	2	4	13	0
Own offshore facilities	8	1	3	6	1
Combination	6	0	1	6	0
Rank by import value of responding companies					
Top 1/3 of companies	22	1	5	20	0
Middle 1/3 of companies	21	2	5	18	3
Bottom 1/3 of companies	22	4	5	16	4
Participation in U.S. trade preference programs					
NAFTA					
Yes	49	5	12	40	5
No	16	2	3	14	2
HTS 807A[c]					
Yes	35	5	9	30	3
No	29	2	6	23	4
HTS 9802 (807)					
Yes	29	3	7	24	3
No	31	3	6	25	4
Don't know	5	1	2	5	0
Current importing sources					
Sub-Saharan Africa					
Yes	22	1	5	22	0
No	43	6	10	32	7

(continued)

Characteristics	All companies	Yes, if required to use U.S.-formed and -cut fabric	Yes, if required to use U.S.- formed (not cut) fabric	Yes, if no restrictions on fabric or cutting	No, under any of the three approaches
Mexico					
Yes	52	5	12	43	5
No	13	2	3	11	2
CBI countries					
Yes	56	5	13	49	4
No	9	2	2	5	3
Asia					
Yes	64	7	15	54	6
No	1	0	0	0	1
Other countries					
Yes	49	5	11	40	6
No	15	2	4	13	1
Don't Know	1	0	0	1	0

Legend:

CBI = Caribbean Basin Initiative
NAFTA = North American Free Trade Agreement
HTS = Harmonized Tariff Schedule

[a]Under each of the alternative approaches, three companies responded that they "didn't know" whether they would begin or increase textile or apparel imports from sub-Saharan Africa.

[b]Main import activity was not determined for one company.

[c]Participation status was not determined for one company.

Factors Influencing Companies' Reactions to Trade Liberalization Approaches

Table II.1: Reasons Companies Might Import

Factors	If required to use U.S.-formed and -cut fabric	If required to use U.S.-formed (not cut) fabric	If no restrictions on fabric or cutting
Total number of companies that might import under each of the approaches[a]	7	15	54
Increased sourcing flexibility	1	4	52
Quota-free benefits	7	10	38
Duty-free benefits	7	10	36
Lower labor costs in sub-Saharan Africa	6	10	20
Lower unit cost of production in sub-Saharan Africa	1	3	11
Lower fabric costs in sub-Saharan Africa	0	0	11
Lower cutting costs in sub-Saharan Africa	1	9	7
Support sub-Saharan African development	0	0	4

[a]Under each of the alternative approaches, three companies responded that they "didn't know" whether they would begin or increase textile or apparel imports from sub-Saharan Africa.

Table II.2: Reasons Companies Might Not Import

Total number of companies that might not import under each of the approaches[a]	55	47	8
Increased shipping time	42	35	3
Increased shipping cost	34	26	2
Less sourcing flexibility	23	17	0
Higher cost of U.S. fabric	18	16	0
Sub-Saharan Africa not in company plans	6	6	4
Concerns over lack of infrastructure	6	6	1
Higher U.S. labor costs	6	2	0
Concerns regarding the quality of sub-Saharan African finished goods	5	5	3
Concerns regarding the quality of sub-Saharan workmanship	5	5	3
Concerns regarding the reliability of deliveries from sub-Saharan Africa	3	4	1
Concerns regarding the quality of sub-Saharan African fabric	2	3	4
Concerns about political instability	2	2	0

[a]One company indicated that while it might begin or increase importing sub-Saharan textiles and apparel under either of the more restrictive approaches, it might not do so under the House bill.

Sub-Saharan African Countries

Republic of Angola
Republic of Benin
Republic of Botswana
Burkina Faso
Republic of Burundi
Republic of Cameroon
Republic of Cape Verde
Central African Republic
Republic of Chad
Federal Islamic Republic of Comoros
Republic of Côte d'Ivoire
Democratic Republic of the Congo
Republic of the Congo
Republic of Djibouti
Republic of Equatorial Guinea
State of Eritrea
Ethiopia
Gabonese Republic
Republic of the Gambia
Republic of Ghana
Republic of Guinea
Republic of Guinea-Bissau
Republic of Kenya
Kingdom of Lesotho
Republic of Liberia
Republic of Madagascar
Republic of Malawi
Republic of Mali
Islamic Republic of Mauritania
Republic of Mauritius
Republic of Mozambique
Republic of Namibia
Republic of Niger
Federal Republic of Nigeria
Republic of Rwanda
Democratic Republic of Sao Tomé and Principe
Republic of Seychelles
Republic of Senegal
Republic of Sierra Leone
Somalia
Republic of South Africa
Republic of Sudan
Kingdom of Swaziland

United Republic of Tanzania
Republic of Togo
Republic of Uganda
Republic of Zambia
Republic of Zimbabwe

Objectives, Scope, and Methodology

As requested, this report provides information on (1) the expected reactions of major U.S. textile and apparel importers to alternative approaches to that taken in the 1997 African Growth and Opportunity Act (bill number H.R. 1432) and (2) the factors that would likely influence U.S. importers' decisions on whether to begin or increase importing textiles and apparel from sub-Saharan Africa.

In preparing this report, we reviewed the African Growth and Opportunity Act, as well as two alternative trade preference approaches. In addition, we met with representatives from key U.S. trade associations, including the American Apparel Manufacturers Association, the U.S. Association of Importers of Textiles and Apparel, and the American Textile Manufacturers Institute, and federal agencies to discuss issues related to the alternative trade preference approaches for sub-Saharan Africa and to obtain their review of our interview instrument and our study design. We met with officials from the U.S. Customs Service, the Commerce Department, and the U.S. International Trade Commission (ITC). Although we did not obtain any written comments on our report, the ITC reviewed a draft of the report and provided technical comments. We incorporated its comments in the text where appropriate.

For background, we compiled trade data on sub-Saharan Africa's textile and apparel exports to the United States from the Department of Commerce, the U.S. Treasury, and the ITC. In addition, we reviewed a September 1997 ITC report assessing the competitiveness of the region's textile and apparel sector, as well as an October 1997 ITC report regarding trade flows between the United States and sub-Saharan Africa.

To report on how major U.S. importers of textiles and apparel might react to the different trade preference approaches for sub-Saharan African textiles and apparel, as well as what factors influence these importers' decisions, we contacted 80 of the largest U.S. textile and apparel importers and asked (1) whether they would begin or increase importing of textiles and apparel from the region under the three alternative trade preference approaches over the next 5 years and (2) what factors would influence their decisions. The factors listed in appendix III were provided voluntarily by the respondents rather than by prompted responses to questions. We completed telephone interviews with 65 of these companies for a response rate of 81 percent. The other 15 contacted companies either refused to participate (6) or could not be scheduled for an interview within the study period (9). To determine whether responding companies differed systematically from those that did not, we compared the two groups in

terms of type of importer, region of the country, and value of imports; no differences were found between respondents and nonrespondents. The item nonresponse rate (the rate of respondents not answering a question that should have been answered) ranged from 0 to 2 percent. Prior to initiating our telephone interviews, we pretested our questions with eight companies not included in the study.

Our report provides information on how companies that account for almost one-third of U.S. worldwide textile and apparel imports might react to different approaches for granting trade preferences to sub-Saharan African countries. Although the results of the company interviews are representative of the largest 80 U.S. textile and apparel importers, these results are not projectable or generalizable to the universe of U.S. textile and apparel importers. Because we were requested to focus on the largest U.S. importers of textile and apparel, our report is not based on a probability sample. Also, the company response information reported is speculative because we asked selected importers to respond to hypothetical situations. Their decisions in an actual situation may be different. However, to ensure that we obtained company-specific information from informed sources, we interviewed company officials directly involved in import-related decision-making.

This report does not assess whether any of the discussed trade preference approaches would constitute an effective trade benefit that furthers development in sub-Saharan Africa. Also, this report does not assess the impact of any of these trade preference approaches on U.S. consumers or producers of competitive textile and apparel products. Nor does the report consider their impact on other countries or regions, such as the extent to which increased trade with sub-Saharan Africa might be shifted away from another region.

The study consisted of the largest importers of textiles and apparel, based on 1996 total dollar value of imports. We obtained this data—the latest available—from the U.S. Customs Service, which provided a rank-order listing of the top 250 apparel importers and the top 250 textile importers during 1996. To select the largest 80 U.S. importers of textiles and/or apparel, we first combined the total dollar value of imports for those companies appearing on both lists (30). We then ranked the companies from 1 through 470. Because the value of apparel imports (about $37.2 billion) was much greater than that of textile imports (about $12.6 billion), our study included more companies that import apparel. Of the 65 companies interviewed, 43 reported importing both textiles and

apparel, 20 reported importing apparel only, and 2 reported importing textiles only. We believe that this grouping of companies does not impair the value of our study since, according to the ITC, preferential access to the U.S. market is more likely to result in investment in sub-Saharan Africa's apparel, rather than textile, industry.[1]

The combined worldwide U.S. textile and apparel imports of the 65 companies totaled about $15.4 billion, or 31 percent, of total U.S. imports of these products during 1996, based on the data provided by Customs. The dollar value of imports for the companies ranged from about $73 million to over $1.1 billion. We did not independently verify the importer information obtained from Customs.

We conducted our work from April to July 1998 in accordance with generally accepted government auditing standards.

[1]In its September 1997 report, the ITC reported that in terms of capital and infrastructure requirements, entry barriers for apparel production are generally lower in comparison with that for textiles.

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